Unaudited Interim Condensed Consolidated Financial Statements

Stelco Inc.

Three and Nine Months Ended September 30, 2018 and 2017

STELCO INC.
CONSOLIDATED BALANCE SHEETS
(In millions of Canadian dollars) (Unaudited)

As at	Note	**September 30, 2018**	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		**$ 168**	$ 45
Restricted cash		**9**	12
Trade and other receivables		**182**	203
Inventories		**470**	448
Prepaid expenses		**15**	18
Total current assets		**$ 844**	$ 726
Non-current assets			
Property, plant and equipment, net	*5*	**432**	305
Investment in joint ventures		**5**	4
Total non-current assets		**$ 437**	$ 309
Total assets		**$ 1,281**	$ 1,035
LIABILITIES			
Current liabilities			
Trade and other payables	*6*	**$ 323**	$ 310
Other liabilities		**35**	33
Obligations to independent employee trusts	*8*	**103**	32
Total current liabilities		**$ 461**	$ 375
Non-current liabilities			
Provisions		**6**	5
Pension benefits	*16*	**2**	—
Other liabilities		**13**	34
Obligations to independent employee trusts	*8*	**498**	312
Total non-current liabilities		**$ 519**	$ 351
Total liabilities		**$ 980**	$ 726
EQUITY			
Common shares	*9*	**2,175**	2,325
Contributed surplus		**500**	500
Retained deficit		**(2,374)**	(2,516)
Total equity		**$ 301**	$ 309
Total liabilities and equity		**$ 1,281**	$ 1,035

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(In millions of Canadian dollars) (Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2018**	2017	**2018**	2017
Revenue from sale of goods	*10*	**$ 619**	$ 336	**$ 1,812**	$ 1,149
Cost of goods sold	*11*	**470**	324	**1,420**	1,026
Gross profit		**$ 149**	$ 12	**$ 392**	$ 123
Selling, general and administrative expenses	*12*	**12**	12	**37**	62
Operating income		**$ 137**	$ —	**$ 355**	$ 61
Other income (loss) and (expenses)					
Finance costs	*13*	**(12)**	(12)	**(198)**	(133)
Finance and other income (loss)	*14*	**1**	—	**(9)**	4
Restructuring and other costs		**(2)**	(1)	**(7)**	(33)
Share of loss from joint ventures		**(1)**	—	**(2)**	(1)
Gain on emergence from CCAA	*22*	**—**	—	**—**	3,665
Income (loss) before income taxes		**$ 123**	$ (13)	**$ 139**	$ 3,563
Income tax expense	*15*	**—**	—	**—**	—
Net income (loss)		**$ 123**	$ (13)	**$ 139**	$ 3,563

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions of Canadian dollars) (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Net income (loss)	**$ 123**	$ (13)	**$ 139**	$ 3,563
Other comprehensive income (loss):				
Items that are not recycled or reclassified to income (loss):				
Remeasurement loss on pension benefit obligations, net of income tax	**—**	—	**—**	(53)
Remeasurement gains on pension benefit obligation of equity accounted investment	**—**	—	**3**	—
Other comprehensive income (loss), net of income taxes	**$ —**	$ —	**$ 3**	$ (53)
Comprehensive income (loss), net of income taxes	**$ 123**	$ (13)	**$ 142**	$ 3,510

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(In millions of Canadian dollars, except where otherwise noted) (Unaudited)

	Note	Number of common shares	Common shares	Contributed surplus	Retained deficit	Total equity (deficiency)
Balance, December 31, 2016		345	$ 2,325	$ 430	$ (6,042)	$ (3,287)
Changes during the period:						
Net income		—	—	—	3,563	3,563
Other comprehensive loss		—	—	—	(53)	(53)
Total comprehensive income		—	—	—	3,510	3,510
Equity contribution from owners		—	—	70	—	70
Balance, September 30, 2017	$	345	$ 2,325	$ 500	$ (2,532)	$ 293
Balance, December 31, 2017		345	$ 2,325	$ 500	$ (2,516)	$ 309
Changes during the period:						
Net income		**—**	**—**	**—**	**139**	**139**
Other comprehensive income		**—**	**—**	**—**	**3**	**3**
Return of capital to Stelco Holdings Inc.	*9*	**—**	**(150)**	**—**	**—**	**(150)**
Balance, September 30, 2018		**345**	**$ 2,175**	**$ 500**	**$ (2,374)**	**$ 301**

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Canadian dollars) (Unaudited)

	Note	Nine months ended September 30, 2018	2017
Operating activities			
Net income		**$ 139**	$ 3,563
Items not affecting cash:			
Depreciation		**28**	19
Share of loss from joint ventures		**2**	1
Provision for doubtful accounts (recovery)		**(2)**	—
Gain on emergence from CCAA	*22*	**—**	(3,665)
Payments to creditors under CCAA		**—**	(237)
Change in non-cash working capital and other operating activities	*17*	**122**	214
Cash provided by (used in) operating activities		**$ 289**	$ (105)
Investing activities			
Capital expenditures on property, plant and equipment	*17*	**(55)**	(22)
Change in restricted cash		**3**	(10)
Cash used in investing activities		**$ (52)**	$ (32)
Financing activities			
Advances from asset-based lending facility, net of transaction costs		**52**	—
Repayment of asset-based lending facility		**(53)**	—
Repayment of mortgage principal		**(1)**	—
Proceeds from inventory monetization arrangement, net	*6*	**38**	—
Advances of long-term debt		**—**	94
Repayment of long-term debt		**—**	(193)
Proceeds from owner's contribution		**—**	70
Return of capital to Stelco Holdings Inc.	*9*	**(150)**	—
Cash used in financing activities		**$ (114)**	$ (29)
Net increase (decrease) in cash and cash equivalents		**123**	(166)
Cash and cash equivalents, beginning of period		**45**	188
Cash and cash equivalents, end of period		**$ 168**	$ 22
Cash flows provided by operating activities include:			
Interest paid		**9**	—
Interest received		**1**	1

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To facilitate a better understanding of Stelco's unaudited interim condensed consolidated financial statements, significant accounting policies and related disclosures, a listing of all the notes is provided below:

1. CORPORATE INFORMATION

Stelco Inc. (Stelco or the Company) is principally engaged in the production and selling of steel products. The Company is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produces a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction, pipe and tube industries in North America. Stelco is governed by the *Canada Business Corporations Act* (CBCA), with its head office located at 386 Wilcox Street, Hamilton, Ontario.

Stelco is a wholly owned subsidiary of Stelco Holdings Inc. (Stelco Holdings). Stelco Holdings is incorporated under the *Canada Business Corporations Act* and its common shares are listed on the Toronto Stock Exchange (TSX) under the symbol STLC.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Stelco's unaudited interim condensed consolidated financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and therefore, these Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes to the Company's audited Consolidated Financial Statements for the years ended December 31, 2017 and 2016 (2017 Annual Financial Statements).

These Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's 2017 Annual Financial Statements, with the exception of the accounting policies impacted by the adoption of new standards and interpretations effective January 1, 2018, as noted below. Certain comparative information has been reclassified to conform to the current period's presentation.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors of Stelco Holdings on November 13, 2018.

Changes in accounting policies

Stelco has adopted each of the standards and policies noted below on January 1, 2018:

a) IFRS 15 - Revenue from Contracts with Customers (IFRS 15)

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and outlines two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company has adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption did not have an impact on the Consolidated Financial Statements.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and certain duties. The Company recognizes revenue as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

Revenue from the sale of goods includes sale of goods from the Company's production of steel products. Revenue from the sale of goods is recognized when the performance obligation is satisfied by transferring the promised good to a customer. A good is considered transferred when the customer obtains control, which is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of an asset. Revenue from sale of goods under bill and hold arrangements is recognized when the buyer obtains control of the goods and the following criteria are met: the reason for the bill and hold arrangement is substantive, the product can be separately identifiable as belonging to the customer, the item is ready for delivery, the Company does not have the ability to use the product or direct it to another customer, and the usual payment terms apply.

Revenue from the sale of products is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and other incentives. Shipping and other transportation costs charged to buyers are recorded in sales and the related costs recorded in cost of goods sold.

b) IFRS 9 - Financial instruments (IFRS 9)

IFRS 9 introduced new requirements for the classification, measurement impairment of financial instruments as well as hedge accounting. The Company adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption did not have an impact on the Consolidated Financial Statements.

Stelco's financial assets and liabilities (financial instruments) include cash and cash equivalents, restricted cash, trade and other receivables, derivative financial instruments, trade and other payables, long-term debt, as well as employee benefit commitments.

The classification of financial instruments is typically determined at the time of initial recognition, within the following categories:

- Amortized cost
- Fair value through income or loss
- Fair value through other comprehensive income

Financial instruments carried at fair value through income or loss

Financial instruments in this category include derivative financial instruments which are presented on the Consolidated Balance Sheets as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial instruments carried at amortized cost

Financial instruments in this category include cash and cash equivalents, trade and other receivables, trade and other payables, long-term debt and the employee benefit commitment. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Trade and other receivables include originated and purchased non-derivative financial assets with fixed or determined payments that are not quoted in an active market and are subsequently measured at amortized cost and is computed using the effective interest method less any allowance for impairment.

Trade and other payables, long-term debt (including the current portion of long-term debt), the employee benefit commitment, as well as the finance lease obligations, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees. The effective interest rate accretion is included as finance costs in the Consolidated Statements of Income (Loss).

Impairment of financial assets carried at amortized cost

Trade and other receivables are subject to lifetime expected credit losses (ECL) which are measured as the difference in the present value of the contractual cash flows that are due under the contract, and the cash flows that are expected to be received. The Company applies the simplified approach at each reporting date on its trade and other receivables and considers current and forward-looking macro-economic factors that may affect historical default rates when estimating ECL.

Financial assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the loan or receivable. If a past write-off is later recovered, the recovery is recognized in the Consolidated Statements of Income (Loss).

c) Weighted average method for raw material inventory cost measurement

Prior to January 1, 2018, Stelco's cost of raw materials were determined using the first-in first-out method. The Company considers that the change to the weighted average cost method gives a more accurate presentation of the results and is more suitable for entities that carry raw materials that are largely interchangeable. This change in accounting policy has been accounted for retrospectively and the relevant effect of this change did not result in any adjustments to current or comparative periods.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

Stelco monitors the potential changes proposed by the IASB and analyzes the effect that changes in the standards may have on its operations.

Standards issued but not yet effective up to the date of issuance of these Consolidated Financial Statements are described below. This description is of the standards and interpretations issued that the Company reasonably expects to be applicable at a future date. Stelco intends to adopt these standards when they become effective.

IFRS 16 - Leases (IFRS 16)

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17, *Leases;* IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4); SIC-15, *Operating Leases - Incentives;* and SIC-27, Evaluating the Substance of Transactions Involving the legal Form of a Lease. The standard is effective for annual periods beginning on or after January 1, 2019. Obligations under operating leases and related right of use assets will be recorded on the Consolidated Balance Sheets. To assess the impact of this new standard, the Company has formed an internal working group and continues to progress on its in-depth assessment. In connection with Stelco's land and buildings acquisition from Legacy

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

Lands Limited Partnership (the Land Vehicle) and concurrent termination of associated lease arrangements discussed further in note 5, the Company does not expect a significant impact to Stelco's Consolidated Financial Statements on adoption of this IFRS.

IFRIC 23 - Uncertainty over Income Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23 to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, and the Company is currently assessing the impact of IFRIC 23 on its Consolidated Financial Statements.

4. STELCO ALGAE HOLDINGS INC.

During September 2018, Stelco Algae Holdings Inc. (Stelco Algae), a wholly owned subsidiary of Stelco, entered into a 'notice to proceed' agreement with Pond Technologies Inc. (Pond) to jointly develop an Algae Carbon Abatement Facility (the Project) at Stelco's steel mill located in Nanticoke, Ontario (the Project Site). The Project includes the following; i) the manufacture and installation of 45,000 litre bioreactor system at the Project Site; and ii) subject to verification of Project viability and the receipt of applicable regulatory and third-party approvals, the installation of a commercial scale bioreactor at the Project Site.

Prior to the 'notice to proceed' arrangement, in November 2017, Stelco Algae, Pond and the Ontario Centres for Excellence Inc. (OCE) entered into a Target GHG Industrial Demonstration Program Funding Agreement (OCEFA) pursuant to which the OCE will fund up to 50% of eligible Project costs to a maximum of $5 million.

Eligible expenses which are to be reimbursed through the OCEFA will be financed by Stelco Algae through a new promissory note arrangement with Pond entered during September 2018. The promissory note is a non-interest bearing revolving loan facility with a maximum borrowing capacity of $2.5 million and a maturity date of September 25, 2019. This note, however bears interest at a rate of 15% per annum if any cash reimbursements of eligible expenses received by Stelco Algae are not repaid to Pond within 10 business days of receipt from the OCE.

At September 30, 2018, Stelco Algae had cash advances outstanding of approximately $2 million in relation to the promissory note with Pond, which is carried within other liabilities on Stelco's Consolidated Balance Sheet. Eligible expenses to date of approximately $2 million in connection with the Project were recorded within accounts receivable and property, plant and equipment on a pro-rata basis of $1 million each respectively, reflecting the 50% reimbursable eligible expense amounts from the OCE under the OCEFA.

5. PROPERTY, PLANT AND EQUIPMENT

Cost	**Land**	**Buildings**	**Machinery and equipment**	**Vehicles**	**Assets under finance leases**	**Construction in progress**	**Total**
Balance at December 31, 2017	$ —	$ —	$ 360	$ 5	$ 32	$ 14	$ 411
Transfers	—	—	19	2	—	(21)	—
Additions	89	—	11	—	7	48	155
Acquisition of assets under finance lease	—	22	—	—	(22)	—	—
Balance at September 30, 2018	**$ 89**	**$ 22**	**$ 390**	**$ 7**	**$ 17**	**$ 41**	**$ 566**

Accumulated depreciation	**Land**	**Buildings**	**Machinery and equipment**	**Vehicles**	**Assets under finance leases**	**Construction in progress**	**Total**
Balance at December 31, 2017	$ —	$ —	$ 95	$ 1	$ 10	$ —	$ 106
Depreciation	—	—	26	—	2	—	28
Acquisition of assets under finance lease	—	1	—	—	(1)	—	—
Balance at September 30, 2018	**$ —**	**$ 1**	**$ 121**	**$ 1**	**$ 11**	**$ —**	**$ 134**
Net book value							
Balance at September 30, 2018	**$ 89**	**$ 21**	**$ 269**	**$ 6**	**$ 6**	**$ 41**	**$ 432**
Balance at December 31, 2017	$ —	$ —	$ 265	$ 4	$ 22	$ 14	$ 305

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

Acquisition of Land and Buildings

On June 5, 2018, Stelco acquired the land and buildings beneficially owned by the Land Vehicle on which Stelco conducts its operations in Hamilton and Nanticoke, Ontario, including lands in Hamilton that contain the Hamilton Works blast furnace and cast houses, as well as developable lands and port facilities (collectively, the Lands). The total purchase price of the Lands was approximately $114 million and was financed with a 25-year, 8% per annum mortgage payable as purchase consideration issued to the Land Vehicle.

In connection with the Lands acquisition, existing lease arrangements between Stelco and the Land Vehicle were terminated and the associated rental payments were canceled, resulting in Stelco's buildings', which were previously held under a finance lease, to be reclassified and recorded as wholly-owned buildings, with a carrying value of $21 million. The total purchase consideration of $114 million included land costs of $85 million (which excludes $4 million of transaction costs) and the extinguishment of lease related obligations of $29 million, $24 million of which related to a building finance lease obligation and $5 million to a land lease liability.

Also in acquiring the Lands, Stelco assumed approximately 1.8 million metric tonnes of secondary waste materials, which under an approved secondary materials management plan (SMMP) with the Ministry of the Environment, Conservation and Parks (MOE), will either be utilized as infill by the Company on the site, sold to third parties or removed from the site and transferred to an external land fill. Under the terms of the SMMP, Stelco is required to manage these waste pile materials over a ten year period which is subject to the potential future use of the Lands. The implementation of the SMMP may be revised periodically in responses to changes in the types of waste materials and land utilization. The Company is assessing the future use requirements in respect of the Lands and will accrue a liability, with a corresponding increase to the acquisition cost, in the event that the future use of the lands requires Stelco to incur costs in connection with these waste materials.

Furthermore, in connection with the acquisition of the Lands, the Company continues to receive the benefit of the environmental release in respect of the Lands that was granted by the MOE on closing of Stelco's *Companies' Creditors Arrangement Act* (CCAA) reorganization on June 30, 2017.

Assets under finance leases

Included in property, plant and equipment are certain buildings, infrastructure and equipment acquired under finance lease arrangements. As at September 30, 2018, the net carrying amounts of these assets under finance leases was $6 million (December 31, 2017 - $22 million).

6. TRADE AND OTHER PAYABLES

As at	**September 30, 2018**	December 31, 2017
Trade payables	**$ 162**	$ 183
Inventory monetization arrangement	**160**	121
Payables to related parties[1]	**—**	4
Other payables	**1**	2
Total trade and other payables	**$ 323**	$ 310

1 Refer to note 21 for further details.

Inventory monetization arrangement

On December 11, 2017, Stelco entered into an inventory monetization financing arrangement which is subject to a financing rate of LIBOR plus a margin of 3.5%. Under the terms of the arrangement, Stelco receives cash proceeds (in USD) based upon an agreed pricing formula and the quantity of certain raw materials on-site, less a required cash margin. Currently, iron ore and metallurgical coal inventory are monetized under the arrangement up to specified maximum volumes. Upon consumption of the raw materials, amounts monetized under the arrangement are repaid to the counterparty.

This financing arrangement is secured by inventory, with a carrying value of $212 million, serving as collateral. The weighted average finance rate for the inventory monetization arrangement for the nine months ended September 30, 2018 was 5.62% (three months ended September 30, 2018 5.80%) and is recorded in finance costs on the Consolidated Statements of Income (Loss).

Subsequent to period end, on October 31, 2018, Stelco entered into an amended inventory monetization arrangement for which terms have remained substantially similar to the original agreement. Amendments to the arrangement include, but are not limited to the following: i) adjusted volume quantity limits of raw materials eligible to be financed through this arrangement, ii) change of the original financing rate to LIBOR plus a margin of 2.50%, and iii) the amended agreement has an option for Stelco to terminate the arrangement early on either July 31, 2019 or August 30, 2019. Amounts advanced under the amended inventory monetization arrangement are required to be repaid when the facility expires on September 30, 2019.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

7. ASSET-BASED LENDING FACILITY

In connection with Stelco's emergence from CCAA, the Company entered into an asset-based lending (ABL) agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of $375 million.

In August 2018, the Company entered into an amended ABL agreement for which the terms have remained substantially similar to the original agreement. Amendments to the arrangement include, but are not limited to the following: i) the facility's maturity date has been extended to August 16, 2023, ii) change of original financing rate to Canadian/US prime rate plus 0.25% - 0.75%, iii) change of original option to index the interest rate to CDOR/LIBOR plus a margin of 1.25% - 1.75%, and iv) change of original letter of credit fee to a range of 1.25% - 1.75%. In addition, the amended ABL facility agreement also includes other amendments which enhance Stelco's flexibility and reduce restrictions associated with Stelco's ability to declare and pay dividends to Holdings.

In the periods prior to these amendments, the interest rate on Canadian/US dollar denominated funds was the Canadian/US prime rate plus 1% - 1.5%, depending on the amount that had been drawn under the facility, and was payable monthly. The Company also had the option to index the interest rate to CDOR/LIBOR plus a margin of 2% - 2.5%, and could have elected this in the event that it resulted in a lower rate of interest on its draws under the revolver. The Company also could obtain letters of credit under the facility at a rate of 2% - 2.5%.

The amount available to be drawn under the ABL credit facility will vary from time to time, based upon a borrowing base determined with reference to the Company's trade receivables and certain inventory balances. At September 30, 2018, the available borrowing base was $299 million. During the nine months ended September 30, 2018, the Company's borrowing and repayment activity on the ABL facility resulted in a nil outstanding balance as at September 30, 2018 and had letters of credit outstanding in the amount of $36 million (December 31, 2017 - $35 million).

8. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at	**September 30, 2018**	December 31, 2017
Employee benefit commitment	**$ 488**	$ 344
Mortgage payable	**113**	—
Obligations to independent employee trusts	**601**	344
Current	**103**	32
Non-current	**$ 498**	$ 312

The Company's obligations to independent employee trusts consists of multiple arrangements that contain future funding requirements to certain pension and independent employee health and life trusts. These funding requirements include both fixed scheduled payments and estimated variable contributions based on Stelco's future operating performance and the utilization of specific tax attributes. The obligations to independent employee trusts includes both the employee benefit commitment, entered into as part of Stelco's Companies' Creditors Arrangement Act (CCAA) reorganization on June 30, 2017, as amended, and a new mortgage in connection with the acquisition of the Lands described further below.

Employee benefit commitment

On June 5, 2018, Stelco entered into an amended employee benefit commitment (amended EBC) agreement that replaced Stelco's previous funding obligations under the original June 30, 2017 agreement. The amended EBC reduces the Company's exposure to future variable funding requirements primarily through limiting free cash flow participation and provides the independent employee life and health (OPEB) trusts established as part of Stelco's CCAA reorganization, with an increased fixed funding commitment over a 25 year term. With the exception of the aforementioned amendments to the employee benefit commitment, the nature of the underlying assumptions used to derive the employee benefit commitment have remained the same to those of the original agreement.

The amended EBC was initially recorded at its estimated fair value of $491 million, which was measured based on a discounted cash flow analysis of expected cash flows to be paid in future periods to the pension and OPEB trusts. These cash flows consist of contractually fixed payments as well as estimated payments that have been determined using management estimates of Stelco's future operating performance. The contractually fixed payments are discounted using a rate that is reflective of the Company's cost of borrowing and similar senior unsecured debt for companies in the same sector that are of a similar size. The estimated variable payments are discounted using a rate consistent with a market rate of return for the Company. Subsequent to its initial recognition, the amended EBC is carried at amortized cost using the effective interest method at an effective interest rate of 9.72%. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is sensitive to changes in these assumptions. Estimates of expected future cash flows are revisited at the end of each reporting period to determine the carrying amount of amortized cost.

In accordance with IFRS, modification of a financial liability terms that results in accounting for the original arrangement as an extinguishment of a financial liability, requires any difference between the carrying amount of the original financial liability and the amended arrangement obligation to be recognized in the statement of income in the period of modification. During June 2018, in connection with the initial recognition of the amended EBC, Stelco incurred a remeasurement charge of $157 million recorded within finance costs on the Consolidated Statements of Income (Loss).

In addition, during the nine months ended September 30, 2018, the Company paid a $20 million advance contribution to the original employee benefit commitment (original EBC), that was estimated as at December 31, 2017 to be paid during the year 2020. As a result of this accelerated payment and the impact to the present value of the original EBC, the Company recognized an increase of $4 million to the liability with a corresponding increase in finance costs on the Consolidated Statements of Income (Loss).

Future employee benefit commitment payments are estimated as follows:

As at		**September 30, 2018**
2018 [1]	**$**	**6**
2019		**105**
2020		**86**
2021		**55**
2022		**62**
Thereafter		**628**
Total estimated employee benefit commitment payments	**$**	**942**
Less: amounts representing future finance costs		**(454)**
Present value of employee benefit commitment	**$**	**488**

1 Represents the remaining three months of 2018.

Mortgage payable

On June 5, 2018, Stelco completed the acquisition of Lands (previously owned by Stelco) back from the Land Vehicle. The Lands were acquired for approximately $114 million which was financed by Stelco through a 25-year, 8% per annum mortgage payable as purchase consideration to the Land Vehicle, which is payable through quarterly fixed payments of approximately $2.7 million over the term. In connection with the acquisition of lands from the Land Vehicle, the properties acquired serve as security for Stelco's mortgage payable.

Future payments of the Company's mortgage payable by year are as follows:

As at		**September 30, 2018**
2018 [1]	**$**	**3**
2019		**11**
2020		**11**
2021		**11**
2022		**11**
Thereafter		**215**
Total future mortgage payments	**$**	**262**
Less: amounts representing future finance costs		**(149)**
Carrying amount of mortgage payable	**$**	**113**

1 Represents the remaining three months of 2018.

9 . SHARE CAPITAL

The following common shares are outstanding at each respective date:

As at		**September 30, 2018**		December 31, 2017
Common shares				
Outstanding (in thousands)		**345**		345
Carrying amount	**$**	**2,175**	$	2,325

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

Return of capital

On July 31, 2018, the Company's Board of Directors approved a return of capital to Stelco Holdings in the amount of $150 million, which was paid on August 13, 2018. The return of capital to Stelco Holdings was recorded as a reduction to the carrying value of Stelco's common shares on the Consolidated Balance Sheet.

10. REVENUE FROM SALE OF GOODS

Revenue from steel and non-steel product sales are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Steel products	**$ 574**	$ 326	**$ 1,713**	$ 1,121
Non-steel products	**45**	10	**99**	28
Total	**$ 619**	$ 336	**$ 1,812**	$ 1,149

Revenue by geographical location is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Canada	**$ 439**	$ 296	**$ 1,319**	$ 981
United States	**180**	40	**493**	168
Total	**$ 619**	$ 336	**$ 1,812**	$ 1,149

11. COST OF GOODS SOLD

Cost of goods sold is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Cost of inventories:				
Steel products	**$ 409**	$ 293	**$ 1,264**	$ 911
Non-steel products	**26**	5	**61**	17
Fixed overhead and other costs [1]	**25**	22	**67**	79
Depreciation	**10**	4	**28**	19
Total	**$ 470**	$ 324	**$ 1,420**	$ 1,026

1 Primarily includes corporate and administrative employee salaries and benefits, certain employees' pension and other benefits, shared service agreement fees and other indirect costs associated with the production of inventory.

For the nine months ended September 30, 2018, cost of goods sold includes the impact of a $6 million inventory revaluation adjustment recorded in the first quarter of 2018 which relates to inventory costs included in cost of goods sold that had been recorded in a period prior to 2018. The impact of this adjustment increased the carrying value of the Company’s inventory with a corresponding decrease to cost of goods sold in the period ended March 31, 2018.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Enterprise resource planning system [1]	**$ 4**	$ —	**$ 14**	$ 17
Employee (active) salary and benefits expense	**4**	2	**12**	7
Management fees [2]	**2**	1	**4**	1
Professional, consulting and legal fees	**—**	2	**3**	4
Acquisition related costs	**—**	—	**—**	18
Settlement of a contract cancellation	**—**	—	**—**	6
Employee (inactive) benefits expense	**—**	—	**—**	4
Shared service arrangement	**—**	—	**—**	2
Other [3]	**2**	7	**4**	3
Total	**$ 12**	$ 12	**$ 37**	$ 62

1 Costs relate to the establishment of a new cloud based Enterprise Resource Planning system that do not qualify as a software intangible because the arrangement is a cloud-based hosting license.
2 Refer to note 21 for further details.
3 For the three and nine months ended September 30, 2017, selling, general and administrative expenses includes approximately $7 million of other costs associated with Stelco's emergence from CCAA.

13. FINANCE COSTS

Finance costs are comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Remeasurement of employee benefit commitment [1]	**$ (2)**	$ —	**$ 159**	$ —
Accretion of employee benefit commitment [1]	**12**	8	**31**	8
Interest on loans and borrowings	**5**	1	**9**	116
Accretion expense related to finance lease obligations	**—**	1	**1**	1
Foreign exchange (gain) loss	**(2)**	1	**(1)**	6
Other	**(1)**	1	**(1)**	2
Total	**$ 12**	$ 12	**$ 198**	$ 133

1 Refer to note 8 for further details.

14. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Loss on commodity-based swaps	**$ —**	$ —	**$ (10)**	$ —
Finance and other income	**1**	—	**1**	4
Total	**$ 1**	$ —	**$ (9)**	$ 4

Commodity-based swaps

During the nine months ended September 30, 2018, the Company entered into commodity-based swaps as part of a strategy to mitigate Stelco's exposure to hot-rolled coil steel market price fluctuations in anticipation of certain slab purchases from a third party, which did not occur. These swap contracts matured and settled during May 2018, with the Company realizing a loss of $10 million. The Company did not enter these contracts for trading or speculative purposes.

Finance and other income

For the nine months ended September 30, 2017, finance and other income includes certain recoveries related to insurance claims and property tax rebates.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

15. INCOME TAXES

The major components of income tax expense for the period ended are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Deferred income tax:				
Origination and reversal of temporary differences	**$ 31**	$ (3)	**$ 35**	$ 766
Previously unrecognized deferred tax assets	**(31)**	3	**(35)**	(766)
Income tax expense	**$ —**	$ —	**$ —**	$ —

Reconciliation of Effective Tax Rate:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Income (loss) before income taxes	**$ 123**	$ (13)	**$ 139**	$ 3,563
Combined Canadian federal and provincial income tax rate	**25%**	25%	**25%**	25%
Income tax expense (recovery) based on statutory rate	**31**	(3)	**35**	891
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:				
Permanent differences:				
Debt forgiveness	**—**	—	**—**	481
Restructuring gain	**—**	—	**—**	(706)
Settlement of debt	**—**	—	**—**	79
Non-deductible interest	**—**	—	**—**	42
Environmental	**—**	—	**—**	(20)
Other	**—**	—	**(2)**	(1)
Unrecognized deferred tax assets	**(31)**	—	**(33)**	—
Write down or reversal of deferred tax assets	**—**	3	**—**	(766)
Income tax expense	**$ —**	$ —	**$ —**	$ —

Deferred tax

Deferred tax relates to the following:

As at	**September 30, 2018**	December 31, 2017
Non-capital and capital loss carry-forwards	**$ 121**	$ 208
Employee benefit commitment	**125**	88
Deductible SRED expenditures	**9**	9
Plant and equipment	**6**	2
Provisions	**2**	2
Impairment provision of investment in subsidiaries	**2**	2
Land lease	**—**	1
Deferred tax assets not recognized	**(265)**	(312)
Deferred tax asset	**$ —**	$ —

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

Reconciliation of movements in the deferred tax asset as at:

	September 30, 2018	Movement	December 31, 2017
Non-capital and capital loss carry-forwards	**$ 121**	$ (87)	$ 208
Employee benefit commitment	**125**	37	88
Deductible SRED expenditures	**9**	—	9
Plant and equipment	**6**	4	2
Provisions	**2**	—	2
Impairment provision of investment in subsidiaries	**2**	—	2
Land lease	**—**	(1)	1
Commodity based swaps	**—**	—	—
Deferred tax assets not recognized	**(265)**	47	(312)
Deferred tax asset	**$ —**	$ —	$ —

Non-capital loss carry forwards:

As at	September 30, 2018	December 31, 2017
2032	**$ —**	$ 30
2033	**79**	400
2034	**164**	164
2035	**238**	238
Total	**$ 481**	$ 832

Unrecognized non-capital losses, investment tax credits, deductible scientific research and experimental development (SRED) expenditures and similar tax attributes are subject to restrictions in use after the occurrence of a loss restriction event such as an acquisition of control by a new shareholder. The use of any remaining tax attributes is dependent on realizing sufficient future taxable income within the carry forward period and satisfying the applicable legislative provisions of the *Income Tax Act* (Canada) and associated Regulations.

16. PENSION BENEFITS

Establishment of new pension plans

Effective January 1, 2018, new pension plans were established for certain active hourly employees of Stelco on substantially the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled as part of Stelco's plan of compromise, arrangement and reorganization under the CCAA. Under the special regulation under the *Pension Benefits Act* (Ontario), Stelco is required to make annual contributions to the new pension plans for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are $4 million annually and decline to $3 million annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefits Act* (Ontario) including, applicable solvency funding requirements. The current service costs for these plans for the three and nine months ended September 30, 2018 is $2 million and $5 million, respectively, which is recorded as an employee (active) benefits expense within cost of goods sold on the Consolidated Statements of Income (Loss).

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

17. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital and other operating activities comprise the following:

Nine months ended September 30,	**2018**	2017
Changes in non-cash working capital:		
Trade and other receivables	**$ 23**	$ 21
Inventories	**(27)**	(13)
Prepaid expenses	**4**	30
Trade and other payables	**(28)**	44
Other liabilities	**3**	104
	$ (25)	$ 186
Changes in other operating activities:		
Provisions	**$ 1**	$ —
Pension benefits	**2**	26
Employee benefit commitment[1]	**144**	2
Other	**—**	—
	$ 147	$ 28
Change in non-cash working capital and other operating activities	**$ 122**	$ 214

1. Refer to note 8.

Capital expenditures on property, plant and equipment comprise the following:

Nine months ended September 30,	**2018**	2017
Capital expenditures on property, plant and equipment:		
Property, plant and equipment additions	**$ 155**	$ 44
Additions not affecting cash:		
Land	**(85)**	—
Finance leases - infrastructure and equipment	**(7)**	(22)
Change in trade and other payables and other liabilities relating to construction in progress and other capital additions	**(8)**	—
	$ 55	$ 22

In connection with the Lands acquisition, the Company recognized $85 million of land costs (excluding $4 million cash settled transaction costs) that was financed with a 25-year, 8% per annum mortgage payable as purchase consideration issued to the Land Vehicle. Refer to note 5 for further details.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the carrying values and fair values of financial instruments:

	September 30, 2018		December 31, 2017	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 168**	**$ 168**	$ 45	$ 45
Restricted cash	**9**	**9**	12	12
Trade and other receivables	**182**	**182**	203	203
Financial liabilities:				
Trade and other payables	**$ 323**	**$ 323**	$ 310	$ 310
Other liabilities	**48**	**48**	67	67
Obligations to independent employee trusts				
Employee benefit commitment	**488**	**485**	344	358
Mortgage payable	**113**	**113**	—	—

The fair values of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables as well as interest-bearing loans and borrowings approximate their carrying amount largely due to the short-term maturities of these instruments. The fair value of the finance lease liability is estimated by discounting the future contractual cash flows at the cost of borrowing to the Company, which approximates its carrying value.

Derivative financial instruments are carried at their fair value and include foreign currency forward contracts. The liabilities are categorized as Level 2 on the fair value hierarchy and their fair value is determined using quoted forward exchange rates as at the financial reporting period end dates.

The fair value of the mortgage payable is an estimate made at a specific point in time, based on relevant market information. This estimate is based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs.

The fair value of the employee benefit commitment is estimated based on a discounted cash flow analysis of expected cash flows, including fixed and variable payments, to be paid in future periods to the pension and OPEB trusts. The contractually fixed payments are discounted using a rate that is reflective of the Company's cost of borrowing and similar senior unsecured debt for companies in the same sector that are of a similar size. The estimated variable payments are discounted using a rate consistent with a market rate of return of the Company. Fair value measurements of these instruments were estimated using Level 2 inputs.

The Company has no level 3 financial instruments. There were no transfers between level 1, level 2 or level 3 during the period ended September 30, 2018.

19. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital by preparing annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The Company’s share capital is not subject to externally imposed restrictions.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

The Company defines its capital to include amounts drawn and available under existing financing arrangements including the asset based lending facility, inventory monetization arrangement, as well as all components of equity and is comprised as follows:

As at		September 30, 2018		December 31, 2017
Amounts drawn under inventory monetization arrangement	$	160	$	121
Amounts available under asset based lending facility		299		269
Total	$	459	$	390
Total equity		301		309
Total capital	$	760	$	699

20. COMMITMENTS AND CONTINGENCIES

Operating leases

Stelco has entered into operating leases on certain machinery and equipment, with lease terms between 3 and 5 years. Additionally, in connection with the Company's emergence from CCAA, the Company sold and leased back under a 25-year operating lease the land on which Hamilton Works and Lake Erie Works are situated. In connection with the Lands acquisition on June 5, 2018, the existing operating lease was terminated and the associated rental payments were canceled. Refer to note 5 for further details.

As at September 30, 2018, Stelco's contractual obligation relating to committed operating leases was approximately $9 million.

Claims and litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's Consolidated Balance Sheets, Statements of Income (Loss) or Cash Flows.

Purchase commitments

At September 30, 2018, the Company had future commitments of approximately $58 million in capital expenditures, which is expected to be paid within the remainder of 2018 and 2019.

21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control, jointly control or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, joint arrangements, investments in associates, directors, key management personnel, among other entities and persons.

The following table provides the total amount of transactions that have been entered into with related parties and outstanding balances with related parties for the relevant financial periods:

	Three months ended September 30,				Nine months ended September 30,			
		2018		2017		2018		2017
Purchases of services								
Joint ventures	$	5	$	5	$	13	$	14
Bedrock Industries B.V.		2		1		4		19

As at		September 30, 2018		December 31, 2017
Amounts payable to related parties				
Stelco Holdings Inc.	$	—	$	3
Bedrock Industries B.V.		—		1

Subsidiaries

Transactions between Stelco and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in these Consolidated Financial Statements.

Key management personnel

Stelco's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and include the executive senior leadership team (ESLT). Prior to the emergence from CCAA, the ESLT comprised of the President and General Manager, Chief Restructuring Officer and certain other members of the senior management team of the Company. Effective July 1, 2017, the ESLT comprised of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice-President and General Counsel & Corporate Secretary of the Company.

During the three and nine months ended September 30, 2018, Stelco recorded $1 million and $3 million, respectively (three and nine months ended September 30, 2017 - $1 million and $3 million, respectively) as an expense related to key management personnel salaries and benefits, post-employment pension and medical and termination benefits.

22. EMERGENCE FROM CCAA

On June 30, 2017, in connection with the emergence of the Company from protection under the CCAA, the Company filed Articles of Reorganization under the CBCA and implemented a plan of compromise, arrangement and reorganization pursuant to the CCAA and CBCA (the Plan), which provided for the restructure of Stelco's business, capital and management. As a result of the implementation of the Plan, Stelco initially recognized a gain on emergence from CCAA of $3,665. Subsequently, during the three months ended December 31, 2017, the gain on emergence from CCAA was reduced by $12 to $3,653, resulting from a change in the expected timing and amount of payments and total cashflows on the measurement of the Company's employee benefit commitment liability at the date of Stelco's emergence from CCAA.